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OPINION AND COMMENT



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We Turn to the Right



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J. F. BELL, Ph.D., *Acting Director*

HILDA R. STICE, *Editor of Publications*

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This publication of the Bureau of Economic and Business Research is issued upon the assumption that our readers will appreciate interpretative comments on topics of current interest. Because studied opinions on the significance of current trends are often more thought-provoking than tabulations of data would be, the Bureau supplements its research by issuing *Opinion and Comment* as another type of service.

The opinions expressed in the articles are the personal views of the respective authors and not necessarily those of the College of Commerce or the University.

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HALE L. NEWCOMER, Editor

FRED M. JONES, Associate Editor

SETH HAMMOND, Associate Editor

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Small Business in the War Period*

J. RUSSELL BONER

Consultant, United States Senate
Special Committee to Study Problems
of American Small Business

Development of Concern for Small Business

SINCE 1941, nobody in Washington can go wrong with a program which includes doing nice things for war veterans and small business. Opposition to either is politically considered as on a par with approval of the rape of Nan-king.

Small business has occupied the attention of numerous agencies and research groups for a great many years, but without any very positive intentions or results. Temporary National Economic Committee Monograph No. 17, *Problems of Small Business*, by John H. Cover, gives examples of thought and action in this field prior to 1940.

Before the end of 1940, however, the fate of small business in Germany and the growing complaints of small business representatives in this country had begun to stir more than academic interest in that segment of the economy. The war orders placed by foreign governments were going to the large United States corporations, labor pressure on small business was increasing, and even the early moderate government controls over man-

power and business activity were alleged to operate to the disadvantage of small enterprise. Special committees to study the problems of small business were set up in that year in both houses of Congress. These committees perhaps rendered their most effective service in acting as sounding boards for the representatives of all elements of small business, and in indicating the intent of Congress in government treatment of small enterprise. But in some instances their actions were more direct and possibly more fruitful.

The Problem of Definition

The task of these committees and the agencies fostered by them has been immensely complicated by the political and practical inexpediency of defining small business to mean really small business. As a consequence of this inexpediency, a small manufacturer has been tacitly accepted as one who employs 500 or fewer wage earners. In 1939, 98.75 per cent of all manufacturing establishments in the United States would have been included as small business under this definition, and the proportion is only fractionally less in 1944. In the draft of a new law being considered as this is written, wholesalers with an annual sales volume of \$1,000,000 or less, or

*The views expressed in this paper are those of the author, and not necessarily those of the Senate Small Business Committee.

about 95 per cent of the number of wholesalers in 1939, and retailers and service establishments with annual sales volume of \$250,000 or less, or some 99 per cent of the total number in 1939, are taken as small business. After laying down these definitions, the law goes ahead to provide for discretionary exceptions to the limitations—which brings matters right back to where they were before any attempt was made to lay down a statutory definition.

It is true that there is no distinct line in any industry, all concerns on one side of which can be said to be large, without room for argument, while all firms on the other side can be designated as small. This holds for any kind of measure chosen, whether it be number of employees, volume of sales, value of assets, value of products, or total weight of the company executives. And to say that the matter of largeness or smallness is, after all, a relative one is simply to beg the question while contributing nothing toward the identification of concerns which are considered as the beneficiaries of moves in behalf of small business. Even if they were once identified, individual concerns change among size classifications, seasonally or cyclically, so often as to make categorical treatment of them impracticable.

Any definition of small business must be arbitrary, but even an arbitrary definition which would set an upper limit excluding at least 25 per cent of all business concerns would strengthen the case for pro-small-business activities. The prac-

tical disadvantage involved is that it is the top 25 per cent of business firms which is best organized, most articulate and vocal, and most nearly capable of ending the political careers of those who move to strengthen potential competitors while excluding the top group from certain benefits, or even discriminating against it.

Obviously, any organization which tries to serve small business starts under the handicap of not knowing whom it is to serve. Instead of focusing its activities on the bottom of the business heap where there could be no question whether its efforts were in behalf of really small business, it tends to work toward the top limit where government aid is less justifiable. The writer has long taken the position that there is some absolute size, not very great, beyond which no business should be considered small, but which would encompass well over 50 per cent of all business enterprises. Needless to say, this has not proved to be a salable idea in Washington.

Neglect of Small Business

However small business is defined, there is little doubt that any concern for it in the early stages of preparation for war was only incidental. As the United States moved further and further toward war, the military and other procurement services expanded their control over industrial output, at the same time tending to place their own orders with the largest corporations. Up to the time of Pearl Harbor at least, there were many defensible reasons

for this which need not be repeated here.

With United States entry into the war, the situation of small business threatened to change sharply for the worse. Controls over production were intensified, and small plants were menaced by the channeling of materials and man power into the large plants with the war orders. Thousands of small business careers were terminated by operation of the Selective Service Act and the opportunities for lucrative employment in war industry. This is largely a war of heavy equipment, and the large plants, many specially created, are the ones which turn it out. Limitation orders, price regulations, and paper work squeezed many kinds of small business severely, but comparatively few perished from these causes.

The situation in the small business area during the first several months of 1942 was confused. It seems evident that, in the beginning, neither the procurement services nor the large corporations had any adequate conception of the size of the production job they were called upon to do. There was general belief that the facilities of the large concerns and their existing satellites were, or could be made, adequate to take care of the entire war production program. There was wide agreement that many small businesses would perish, but that this was a necessary consequence of the war effort. By the end of the first quarter of 1943, the 200 largest manufacturing corporations, as measured by assets, were said to have been awarded almost 65 per cent of the \$105 bil-

lions in prime war supply contracts awarded to all manufacturing corporations.

Small Plants in War Production

During 1942, the majority of small manufacturing concerns were adapting themselves in one way or another to fit in with the war program. Many of them had long been closely allied with the large corporations which held prime contracts, or with the principal subcontractors of these corporations. Others hastened to form such alliances. But there were still countless small plants either badly equipped for either war production or essential civilian production or without the contacts necessary to obtain orders. These plants were still hovering between life and death late in 1942.

Neither the unutilized small businesses nor Congress was willing to accept the defeatist view that so much small business must inevitably perish. It was objected that democracy and free enterprise are not saved by killing out integral elements of them. The belief spread, aided by scarcities of basic materials, that small plants not immediately fitted for war or essential civilian production could be adapted to these lines more economically than new facilities could be created in large plants. Conscious effort was made to adapt equipment of more small plants to production of small parts. Other small plants turned from fabrication to assembly or processing operations essential to war production, displaying an amazing versatility. The fallacy of expecting from small plants only production

closely paralleling their peacetime production was soon exposed, as plant after plant turned out satisfactory jobs of a kind they had never before thought of doing. Truly, small business was in the fight, not only against the Axis but for its own survival, and it was doing an excellent job on both fronts. Measures to keep merchandising and service firms in existence were devised, and a tragic end for multitudes of small businesses no longer seemed probable.

By the end of 1942 it could not be said that small business as a whole was badly off. It had made tremendous absolute gains in dollar volume of business, but its gains possibly were not relatively so great as those of large business. Percentage-wise, net income after taxes of small business increased substantially more than did that of large business, starting, of course, from a smaller base.

The Smaller War Plants Corporation

The story of the varied activities of the Congressional small business committees is an interesting one in itself, but space does not permit it to be told here.

Among other things, they were responsible for the formulation and passage in June, 1942, of Public Law 603, creating the Smaller War Plants Corporation (SWPC). This was after the moves to get small plants into the wartime program were well under way, and the law was applicable to a past situation which was beginning to disappear except for the inevitable lags which

persist during any period of change. The contradictions and weaseling within the law itself made it all but inoperable, and it was six months before the Corporation could point to any concrete achievement.

The law declared it to be the intent of Congress that the productive capacity of all small plants should be aggressively mobilized for war and essential civilian production. It gave SWPC limited authority to comb government procurement orders and select suitable items for production in small plants designated by the Corporation. Provision was made for the Corporation to take prime contracts from the procurement services to subcontract to small firms. SWPC was capitalized at \$150 millions, out of which it could make loans to small plants and buy and lease property to these plants for the stated purposes. However, as the law read, these powers were given by Congress to the chairman of the War Production Board personally, to be exercised through a vice-chairman acting as chairman of the Smaller War Plants Corporation. Since it was the function of the War Production Board chairman to achieve the maximum possible production in the shortest possible time, it is not surprising that the law made little difference in the course war production was following by the latter half of 1942. In fact, until the middle of 1943, SWPC functioned only as an adjunct to the Smaller War Plants Division of WPB, after which it was set apart administratively, but with its most effective power retained by the WPB chairman. The Defense Plants Corpora-

tion, a subsidiary of the Reconstruction Finance Corporation, was designated to service SWPC's loans and leases, creating an unfortunate division of functions in this area. Minor powers to collect information and to carry on and coordinate certain studies were delegated to the Corporation. The effectiveness of its combing of procurements depended entirely on the extent to which the procurement services chose to cooperate. So far as the services were concerned, this cooperation was decidedly secondary to getting the goods to win the war.

The value of Public Law 603 and the Smaller War Plants Corporation lies less in the latter's measurable operations than in their intangible influences. The intent of Congress to bring every possible small plant into the total war effort was plainly expressed, and the efforts of SWPC eventually went far to force the War Production Board, the procurement services, and the large prime contractors to participate in the attempt. SWPC field offices aided small plants with appeals against rulings, gave them technological aid and management advice, and helped them in every way possible to solutions of their problems. Frequent Congressional committee hearings on the extent to which small plants were being fitted into the wartime program kept pressure on all concerned with the control of production.

Other hearings permitted trade and industry associations and individual small businessmen to air grievances related to price control, unfair competitive practices, arbi-

trary decisions on appeals to government agencies, and other causes of squeezes. The publicity, plus semiofficial admonitions of the committees, often resulted in corrective administrative measures.

Wartime Business Changes

What has actually happened in the business arena since 1940 cannot as yet be precisely measured. Only scraps of evidence can be collected. The United States Department of Commerce has estimated that there has been a net discontinuance of more than 500,000 business firms since 1941. Table I shows new and discontinued businesses by employee-size groups in each industry classification for the four years since 1939. It is to be noted that there has been an actual net increase in the number of mining and quarrying firms and of manufacturing firms over this period. The over-all net decline is caused not so much by an abnormally high rate of discontinuances as by an abnormally low rate of business entries. During the last three quarters of 1943, the rates of business births and business deaths both declined to very low levels, about offsetting each other.

Table II gives an indication of some changes in the small retailing situation since 1939.

A comparison of manufacturing plants classified as small in 1939 with those in the same class in 1943 indicates that the plants with 500 or fewer wage earners increased their labor forces in that period by approximately 25 per cent and their value of products by about 70 per cent. The plants with more than 500

TABLE I
ESTIMATED NUMBER OF NEW BUSINESSES AND DISCONTINUED BUSINESSES,
BY INDUSTRIAL GROUPS AND SIZE OF FIRMS, 1940-43
(In thousands)

Industrial group and size of firm	New Businesses				Discontinued Businesses			
	1940	1941	1942	1943	1940	1941	1942	1943
All industries, total.....	431.2	516.9	408.3	163.4	434.4	480.1	678.0	394.8
No employees.....	167.8	243.6	269.9	36.5	259.0	275.5	386.6	231.0
1 to 3 employees.....	216.3	220.2	108.8	104.2	158.7	186.0	266.9	135.1
4 to 7 employees.....	29.4	32.2	17.3	13.9	8.3	8.6	13.5	14.9
8 or more employees...	17.6	20.9	12.3	8.8	8.3	10.1	11.0	13.9
Mining and quarrying...	3.0	4.0	3.9	1.5	2.2	2.2	2.0	1.5
No employees.....	.1	.2	.3	.1	.2	.2	.2	.2
1 to 3 employees.....	1.3	1.7	1.6	.6	1.8	1.8	1.6	.8
4 to 7 employees.....	.8	1.1	1.0	.4	.1	.1	.1	.2
8 or more employees...	.7	1.0	1.0	.4	.1	.1	.2	.3
Contract construction...	86.4	113.8	98.1	20.7	72.6	93.6	136.3	76.6
No employees.....	43.2	53.6	60.9	11.1	42.9	52.7	72.8	34.3
1 to 3 employees.....	29.4	41.0	25.4	6.6	27.1	37.5	57.4	32.9
4 to 7 employees.....	7.7	10.7	6.6	1.7	1.0	1.4	2.9	4.2
8 or more employees...	6.2	8.5	5.2	1.4	1.6	1.9	3.2	5.2
Manufacturing.....	30.8	33.8	27.5	25.6	27.3	26.4	27.7	23.2
No employees.....	11.3	8.9	12.0	6.0	10.6	10.2	10.4	7.7
1 to 3 employees.....	11.5	14.7	9.1	11.5	15.4	14.8	15.9	13.2
4 to 7 employees.....	4.2	5.4	3.3	4.2	.5	.5	.6	.8
8 or more employees...	3.8	5.0	3.0	3.8	.8	.9	.9	1.4
Transportation, commu- nication and other public utilities.....	46.5	42.1	52.9	20.9	51.1	38.0	63.1	27.5
No employees.....	35.7	31.4	47.3	10.8	44.2	32.2	53.1	21.7
1 to 3 employees.....	9.7	9.5	5.0	9.0	6.7	5.6	9.7	4.8
4 to 7 employees.....	.8	.8	.4	.7	.1	.1	.2	.5
8 or more employees...	.4	.4	.2	.4	.1	.1	.1	.5
Wholesale trade.....	34.4	29.7	25.7	7.8	34.4	29.7	40.1	23.2
No employees.....	10.4	9.1	12.0	1.7	13.2	10.4	14.2	7.0
1 to 3 employees.....	20.2	17.4	11.6	5.2	18.2	16.0	22.3	13.0
4 to 7 employees.....	2.7	2.3	1.5	.7	1.5	1.5	1.7	1.7
8 or more employees...	1.1	1.0	.6	.3	1.5	1.7	1.9	1.6
Retail trade.....	107.3	118.0	71.7	38.2	106.4	116.8	228.8	147.2
No employees.....	17.9	46.7	58.4	2.8	62.7	66.2	129.5	101.0
1 to 3 employees.....	77.8	62.0	11.6	30.7	39.7	45.5	92.3	38.3
4 to 7 employees.....	8.8	7.0	1.3	3.5	2.2	2.1	4.1	4.8
8 or more employees...	2.9	2.3	.5	1.1	1.9	2.9	3.0	3.1
Finance, insurance and real estate.....	31.8	37.8	18.9	20.1	38.0	42.0	29.1	22.2
No employees.....	11.2	16.9	10.1	2.1	20.6	21.8	14.4	12.5
1 to 3 employees.....	19.1	19.3	8.1	16.6	16.9	19.7	14.1	9.0
4 to 7 employees.....	1.2	1.2	.5	1.1	.5	.4	.5	.5
8 or more employees...	.3	.3	.1	.3	.1	.1	.1	.1
Service industries.....	91.0	137.6	109.4	28.6	102.4	131.3	150.7	73.4
No employees.....	38.2	76.8	69.0	1.9	64.8	81.8	92.1	46.5
1 to 3 employees.....	47.4	54.6	36.4	23.9	33.0	45.1	53.7	23.1
4 to 7 employees.....	3.3	3.8	2.5	1.7	2.4	2.5	3.5	2.2
8 or more employees...	2.1	2.4	1.6	1.1	2.1	1.9	1.5	1.6

Source: Condensed from *Survey of Current Business* (U. S. Dept. of Commerce), July, 1944.

wage earners increased their labor forces by some 175 per cent and their value of products by about 300 per cent. Of course, quite a number of small plants moved into the "large" group in this interval, and huge new war production facilities were started from scratch, so that there were by 1943 a great many more plants in the "over 500" category than there had been in 1939. Furthermore, average employment in these plants had risen tremendously.

In spite of a still spotty situation, it is apparent that small business in general has fared very well. Reports from a fair sample indicate that at least 7 of every 10 small manufacturers in mid-1944 do not expect to need outside financing for recon-

version to peacetime operations. Of those who do expect to draw upon outside sources, many are planning additional plant expansion and entry into new lines of production. Thousands have been able already to expand their plants, acquire new facilities, and prepare themselves for the future on a highly satisfactory scale. As an illuminating footnote, promoters of trade and industry association banquets have had little difficulty in selling whole tables to small businessmen at prices up to \$15 a plate.

Protection of small business from inadvertent or deliberate discrimination was doubtless necessary and desirable in wartime. The survival of numerous individual small businesses has been widely attributed

TABLE II

PERCENT OF RETAIL FIRMS WITH LESS THAN FOUR EMPLOYEES, AND PERCENTAGE CHANGE IN NUMBER OF FIRMS AND SALES, BY KINDS OF BUSINESS

Kind of Business	Percent of firms with less than 4 employees, 1939	Percent change in number of firms, 1939-43	Percent change in sales, 1939-43
Grocery, with and without meats	97	-17	+68
Filling stations	95	-25	-11
Meats and seafood	92	-30	+64
Other food stores	92	-22	
Liquor	92	-10	+130
General stores with food	89	-21	+36
Other retail	88	-15	+85
Appliances and radios	87	-31	- 6
Shoes	86	-21	+66
Hardware and farm implements	84	- 9	+34
Eating and drinking places	81	-15	+127
Apparel and accessories	80	- 9	+100
General merchandise	77	- 6	+56
Drugs	76	-10	+73
Other automotive	72	- 9	+38
Home furnishings and equipment	69	- 5	+58
Lumber and building material	65	-13	+ 8
Automobile dealers (new and used)	50	-20	-65

Source: *Survey of Current Business* (U. S. Dept. of Commerce), May, 1944.

solely to Congressional concern for their welfare. Despite incessant complaints about one matter or another, there is a general feeling that the small business problem has worked out better than was expected in the early days of the war. Congress is now beginning to explore needs for, and means of, providing tax relief and better access to equity capital for small business.

Concern for the Future

Feeling that the pressure in favor of small business must not be eased, Congressional and small business groups now profess grave concern for the prospects of small enterprise during the period of transition to peacetime operations. They are afraid that small business may be the last to obtain supplies of the scarcer raw materials with which to re-enter civilian production. They fear that small businesses will encounter difficulties in obtaining surplus war property, in getting working capital promptly out of war contract termination claims, and in resisting pressures put upon them by large business.

Small business itself shows few such fears, and there are those in Washington who choose to attribute this lack of concern to the ignorance and shortsightedness of small business. The large majority of small businessmen insist that they have money in the bank and will need little or no financial assistance in reconversion. Furthermore, they assert that with fair and quick relaxation of government controls and some tax relief they can make their own way. The number who com-

ment that they *should* perish if they cannot succeed by their own efforts is surprising, but this is probably a reflection of the prosperous condition in which they now find themselves. Some are uneasy about postwar government-sponsored competition from veterans and others.

Small businessmen tend to be quite unperturbed about threatened difficulties, delays, and other fateful consequences of war contract settlements. Overshadowing these is their mild amazement at their own enormous productive powers, and they foresee a roseate future as large producers. They have been repeatedly told that this is what the postwar world will require, and they are anxious to supply large volumes of goods. Unfortunately, they have thought little about marketing prospects and problems, and that may prove to have been a catastrophic omission when competition again becomes the dominating factor in business life. A few do not even know what postwar product they are going to make, but they are confident they can make lots of it.

It is asserted that the small concerns do not know how much of the money they have in the bank belongs to them and how much will be recaptured in one way or another by the government. Fears are expressed that their lack of concern with the contract settlement problem will lead to serious congestion, perhaps bringing large segments of business to a dead stop while bottlenecks are being cleared. If these fears are borne out, the resulting unemployment and community problems could be staggering. There is concern that

all these factors will work together with the anti-reconversion attitude of the military services to put the small plants at a disadvantage relative to large plants in reconverting. The protagonists of small business have insisted that small plants should be allowed to reconvert to peacetime production first.

Small and Large Business

The small plants are not markedly concerned with this sentiment in their behalf. Many of them point out the interdependency of small and large business, and insist that they must move together. Small electrical appliance and machinery manufacturers want the big fractional horsepower motor makers to get back into civilian production to supply them with the necessary components of their end products. Small motor car parts manufacturers must wait for their markets until passenger car manufacture is resumed. Thousands of distributive, service, and manufacturing enterprises, large and small, must all move into peacetime operations close together if they are to reach and maintain an efficient level of business activity. Many of the small converted plants, quite understandably, have no enthusiasm for being thrown out of gear with the large industries upon which their normal operations directly or indirectly depend.

As this is written, a law is under consideration for extension of the life of the Smaller War Plants Corporation, renamed the Small Business Corporation, for two years, to July 1, 1947. The intent is to help small business through the recon-

version period. The Corporation is granted certain loosely-defined "powers" so unsusceptible to administrative interpretation that it is difficult to foresee their significance. Briefly, it is given authority to bring limited pressures on other government agencies, to help small business with research and patent development, to carry on certain fact-finding and disseminating functions, and to continue its lending and leasing activities with a new capitalization of one billion dollars. Much or little might be done with these powers, depending upon administrative interpretation, organization, and vigor.

Fundamentals of Free Enterprise

The demagogic justification for a government agency of this kind is that it is necessary "to preserve free enterprise." It appears to be as inexpedient to define "free enterprise" as to define "small business." SWPC has functioned thus far chiefly by trying to protect small business against government discriminations, but the small business vocalists talk and think in terms of freeing it from "big business" domination. If free enterprise means freedom from postwar government whimsy, then there is inexcusable conflict within the government when such an agency becomes necessary to safeguard this freedom. Big government has outrun big business when some parts of it make necessary the creation of antagonistic parts. Under the American political system, representatives of the people should decide whether or not they want government direction of all business and there should be no

conflict within government in carrying out the popular mandate.

On the other hand, as a matter of obvious fact, any agency which proposes to "do something" for one segment of the economy as against another must unavoidably oppose free enterprise in the literal sense. Big business got where it is by exercise of free enterprise—of a sort—and the moves to discriminate against it in favor of small business constitute undeniable curbs on free enterprise. Of course, the public interest requires certain restraints upon anti-social activities of all manner of businesses, but most of these have long since been provided for in existing laws and agencies. Any undesirable tactics of big business can readily be handled, if this is really wanted, by energetic action of established agencies set up to enforce existing laws. If equalization of business size is honestly desired, it could be much more effectively approached by courageous enforcement of repressive laws than by pious provisions for doubtful aids to small business in lifting itself by its bootstraps.

This paternalistic attitude toward small business fosters an ever-growing inferiority complex and a mendicant outlook. The moral fiber of small business management is being weakened, and the characteristic sturdy self-reliance of the early American entrepreneur is in grave danger of being replaced by the dependency of the cry-baby. Government practices make it possible for the latter to get along better than the former.

The ultimate aims of any small business agency have never been clarified. Each appears to approach its job with the conception that its function is to eliminate the margin and make every small business a large business. Although they deny this, its truth is evident from the directions taken by their activities.

At least one government small business agency proposes only to warn would-be entrepreneurs of the hazards involved in entering business, and to educate small businessmen to greater efficiency. These aims are possible, to a degree, and are perhaps desirable, although this may be a matter of some controversy.

Small business is highly opportunistic. Many small concerns are founded to take advantage of a real or fancied particular situation. Thus, the situation in conjunction with the capacities of the entrepreneur must be evaluated. The capacity to evaluate an apparent business opportunity is an important part of the entrepreneurial function. As a practical matter, what agency can perform this function so well as the would-be businessman? Should any agency pass upon his judgment and discourage or encourage his entry? Warnings and cautions may make for sounder initial ventures, and they may tend to decimate small business ranks by lowering the birth rate.

If only well-qualified entrants establish businesses in all the right places, at the right times, and in the right lines, and all businesses are made equally efficient, competitive relationships thenceforward are not essentially changed and it becomes

much more difficult for a new entrant to establish himself. There is the stronger possibility that relatively few small businessmen would profit from educational opportunities, while the majority would not. Furthermore, it has been pretty well established that, as a rule, the larger the concern the more capable it is of obtaining and using trade information to grow larger. As the few small businesses become more efficient, they do not compete much more successfully with the efficient large businesses in their lines, but tend to fatten at the expense of their more direct small rivals. A really successful small business educational agency would put many small establishments out of business while a few would grow into large concerns. The area of opportunity in small business would be narrowed, and the small business agency would be a party to the extinction of its constituency, either through repression of entry, discontinuance, or growth out of the small business class.

It must be emphasized that small business is not a structure but an institution of ever-changing components. The very instability of its individual parts keeps the door of entrepreneurship open to aspirants. Some of its parts grow into large businesses. More small business is ill-conceived or ill-founded, and the inept or unfortunate are soon removed from the field to make room for others to try their talents and risk their resources. When some government agency undertakes to keep all the dead wood in the small business forest standing, it becomes

all the more difficult for new sapling growth to make its way upward. High business turnover has its undesirable aspects but it has kept high the standing of this country as the land of opportunity. Opportunities to enter business and to stand or fall as a consequence of their own decisions make up what most small businessmen understand as the free enterprise system. Paradoxically, a government small business agency injected into the traditional American economic system succeeds in the same measure as it fails.

This is not to say that a government small business agency can have no legitimate functions. A part of free enterprise is the opportunity to discover and use all helpful facts. Just as the state governments provide public schools, the Federal government can provide sources of helpful trade information most economically.

Economic and Social Views

It is a fundamental principle of economics that so long as an enterprise is supplying a good or a service which is widely wanted, the only way its patrons can keep the supply forthcoming is by paying at least the cost of production to keep the supplier in existence. As more economical ways to supply things are discovered, former sources are supplanted. No one has ever adduced positive proof of the ultimate economic necessity for small business. The economist is inclined to take the view that the growth of large business must be due, in large part

at least, to the fact that it is better able to meet some consumer demands than is small business. This generalization is too broad, of course, to state as a principle, because the financial integration of business does not stop at the optimum point of production and distribution integration, and because there are competitive advantages which accrue to great concentration of control. The emergence of large business at the expense of small units in particular lines is not, however, per se to be deplored.

If greater production and more equitable distribution were the sole consideration, it might be advisable to encourage business concentration to facilitate state control. But this would not be in line with the American tradition. This country is supposedly committed to a democratic economic system which, like a democratic political system, must be founded on a broad base. It is deemed undesirable for large integrated business interests to concentrate economic power in few hands, thus stringently limiting the opportunities for diffused ownership of more and smaller business units. It is commonly accepted that such concentration results in less total productivity and lower employment than the country might otherwise have. This, in broadest terms, is the case for small business.

Fears of early extinction of small business, even if concentration continues, appear to be quite unfounded. Small business almost always does

pioneering work. As a field is developed, either the pioneer concerns become large and integrated or other integrations take over the best parts of the field, in many cases supporting satellite small businesses. Other small businesses continually crop up in new exploratory lines until they in turn develop a field in which larger units can profitably operate. There are areas and opportunities left by large business in every line which small business can profitably exploit. Each business aspirant may, within the limitations of his capacities, choose his field and develop it to the extent of its possibilities. It is to be assumed that he chooses as well as his means will permit between combinations of apparently high risks and high potentialities and low risks and decided limitations. Economic, political, and military developments make up part of the risks, and are often responsible for a shift of small business either upward from its initial Census size group or, more likely, for a move downward, even to disappearance, thus leaving room for the free enterprise of other aspirants.

However, the concept of free enterprise is undergoing changes, and the confusion is now such that it will take some time for any clear definition to emerge. Until it does, the country can expect queer mixtures of charity, altruism, and intra-governmental conflict, as fumbling bureaucracies make their bewildered and bewildering influences felt in the small business field.

A Proposed Plan by Which the University of Illinois Can Offer Service to Small Communities of the State*

H. T. SCOVILL

Acting Dean
College of Commerce and Business Administration

Small Communities Necessary

IT is imperative for the future welfare of the United States that the environment on farms and in the small cities and villages be maintained at a level which will continue to attract the intelligent class of citizenry they have had in past decades. The shift in population has been such in recent years, however, that some concerted action seems necessary if the small communities are to continue to provide in the future as they have in the past a great many of the constructive, energetic, imaginative thinkers of the country. The future development of the arts, sciences, and professions depends in large measure on the wholesome home environment of farms and small urban settlements.

The colleges of agriculture are doing much to make rural life more beneficial and attractive. Colleges of commerce should take the initiative in assisting small communities to meet the challenge of a dwindling population.

Successful Business and the Community

A small community in general is no more progressive in the aggregate than are its business and profes-

sional men. Stated conversely, wherever there is a body of aggressive, successful business and professional men in a small community, the residents thereof seem to absorb a spirit of optimism and pride which makes for better citizens, better schools, better churches, and other public and social agencies which attract and hold a high grade of citizens interested in living a well-rounded life. This is a most important reality to keep in mind in making any plans for the physical or social improvement of a city.

The development of more profitable business establishments in small cities and villages will attract more college graduates and more of the intelligent, all-round, non-college trained young people to such communities. Gradually, by such a process, a nucleus should be made available for making more effective any further assistance which the College of Commerce or other agency of the University might offer.

Decentralization of Industry

Decentralization of industry into the smaller cities seems desirable for the general social welfare of the nation, through the establishment of

*Presented to the committee on future University programs.

better employer-employee relationships and the promotion of loyalty to one's occupation, to one's community, and to its social, religious, and educational agencies. Such a movement toward decentralization would doubtless increase the opportunity for service to small business.

Both Large and Small Business Aided

In general, the College of Commerce in rendering service to the businessmen of the smaller communities should not overlook the offering of similar services to the small businessmen of the larger cities.

As a part of a state tax-supported institution no agency of the University can discriminate against individuals or business concerns in offering or rendering a given type of service. In general, the large business houses transact much of their business with smaller concerns. Accordingly, anything that is done to improve the operating results and stability of small business will tend to benefit large business. This should be especially noticeable in the matter of losses from bad debts arising from bankruptcy of small business concerns and from their general inability to "make both ends meet."

Community Advisory Procedures of the Past

For about fifteen years until 1931, the University of Illinois had a Community Adviser who was paid jointly by the Colleges of Commerce and Agriculture. For several years there has been a Community Planning Bureau also. Both of these agencies existed for the purpose of

making better and more attractive communities. It seems, however, that although they have stimulated some communities and individuals, their total benefits have not been nearly so great as they would have been if the groundwork of creating successful businessmen had been laid first. The business and professional men and labor leaders of a community, and their wives, must be depended on to bear the brunt of planning or of executing plans for almost any civic or social improvement undertaken.

Types of Service to Small Business

The College of Commerce, through its staff appropriately organized for this purpose, should offer to assist business concerns to do the best possible job of serving the public. Such service to the public consists of providing goods and services of a quality demanded by the customers in a manner and at a price which is adequate and reasonable. Other correlative factors, of course, are of importance in managing a business so that it can meet satisfactorily the numerous problems arising in the execution of the main objective. Service by the staff of the College, therefore, would be in the fields of advertising, selling, buying, personnel management, transportation, insurance, accounting, industrial management, government relations, banking, finance, and general economics. Later, in combination with services from other colleges, public finance and taxation should be included.

Community Advisers, Bulletins, Short Courses

Advice in each of the fields mentioned would be made available to business through community advisers but also through personal conferences with other staff members and through research bulletins, popular bulletins, addresses, short courses, correspondence, and in other special ways, such as summarizing and interpreting accounting data.

A type of service which might be started in a small way and gradually increased is that in which a group of businessmen in each of several lines, such as groceries, hardware, drugs, garages, and others, send in to the College the fundamental totals from their books of account yearly or oftener. The College of Commerce could then compile data in the aggregate which would reveal in an impersonal way important cost and profit results and ratios, which would permit any business to compare its results with those of others of similar nature in the same section of the state or in other areas.

This was one of the types of service rendered by the College of Agriculture as early as 1912 for farmers, and it has been maintained continuously for over thirty years. It not only has assisted the individual farmers but has furnished invaluable data to the College for use in rendering more effective service to farmers in their general farming operations and business policies.

Other Departments of the University

When it appears that a given community has the type of leadership in

its business, professional, and labor groups to assist materially in effecting improvements in the social, recreational, educational, civic, and other phases of community life, other departments of the University should be in a position to offer assistance and advice. Some of this assistance would doubtless come from the College of Commerce in matters of taxation and public finance, but more would probably come from other departments or colleges dealing with such subjects as municipal government, city planning, public schools, parks, recreational programs, music, sanitation, and other items.

In most cases, the Community Adviser for a given area of the state, when he feels that a city or village in the area is ready for such non-business programs, should assist the citizens in planning for additional types of service.

A number of small communities, it is assumed, are not in need of business resuscitation. Others are sufficiently progressive so that their business interests might respond to suggestions in a very short time. In such cases the other cooperating agencies of the University might begin very early to make contacts which would enable them to render service even during the first year after the inauguration of the general community advisory system.

Prevention or Reduction of Business Failures

The College of Commerce, it is hoped, can do much to prevent or reduce the number of failures in business by attacking the problem from two points of view: (a) con-

ducting a program of education intended to reveal difficulties in the successful operation and management of a business and thus probably discourage some poorly qualified individuals from starting a business; (b) offering assistance and advice in maintaining profitable operations of existing businesses, thus keeping business failures at a minimum. This is a social service, because every business failure is like a stone thrown into a body of water, distributing its effect weakly but nevertheless surely over a wide area.

This proposed plan for state-wide community service needs some field men for its effective execution. It will be unnecessary to have an adviser for each county as agriculture has, but there should be several regional advisers in the state. The area covered by each would depend on the number of cities and villages interested in the service and the number of business concerns to be served.

Initiating the Plan

After some plan similar to that described has been authorized with a reasonable budget, the College of Commerce should obtain the cooperation of retail trade associations, chambers of commerce, labor organizations, and any other groups affected by a study of a community for the purpose of improving its general value as a place in which to live.

Field agents or business advisers representing the College of Commerce should then make contacts with businessmen directly and through chambers of commerce and help them to decide whether or not

they would be willing to cooperate with the College in its proposed plan. Meanwhile also, by special meetings, printed bulletins, and personal contacts, the groundwork could be laid for improvement in business operating methods in those places where fully satisfactory conditions do not seem to prevail.

As soon as it seems desirable in any community (preferably through the initiative of its business and professional men) to raise with its citizens the question of better municipal government, better schools, parks, and other civic and social agencies, the other appropriate cooperating agencies at the University can begin to serve as needed.

The advisers from the College of Commerce would expand the service gradually after starting with two or three counties but would continue to maintain contacts with the business interests of all cities and villages previously served, so that the latter might receive the benefit of research work and special studies conducted by the staff of the College of Commerce. It is assumed that this method would perpetuate the operation of business on a high plane and would open the way for many types of community self-service and improvement.

An Advisory Board

The proper execution of such a plan for community service would require the creation of an advisory board on the campus, consisting of one member from each of the departments concerned. Such a board would serve primarily as a coordinating agency in carrying out the proposed procedure.

Bureaucracy in a Democracy

GEORGE W. GOBLE

College of Law, University of Illinois

THE departments of government are usually said to be three in number: the legislative, which makes the law, the executive or administrative which enforces it, and the judicial, which interprets it. While it is helpful to make a broad general classification of governmental powers in this manner, it must not be thought that the division between them is clear-cut and distinct. And though in general it is desirable that the law be made by one set of officers, enforced by another set, and interpreted by still another, it must not be thought that in practice this is always done, or that it is desirable that it should always be done. Probably most official acts can be definitely assigned to one or another of the three departments. For example, the legislature's passing a traffic act which prohibits unreasonable speed is legislative; the policeman's making an arrest of a speeder under the law is executive; and a court's deciding that 50 miles an hour is unreasonable speed, is judicial. But not all official acts can be so easily classified. For example, a state commissioner of insurance decides that an insurance company shall make a financial report to him on a particular form. Is that legislative or executive? For the failure of the company to comply with his order the commissioner decides to revoke the permission of the company to do

business in the state. Is that executive or judicial?

The complexity of modern government has created new problems in the field of administration. In order to deal with many complicated problems such as the regulation of railroads, communications, public utilities, insurance, workmen's compensation, stock markets, employer-employee relations, etc., it has become necessary to grant wide discretion to administrative officials in such matters as rates, contracts, and character and quality of service. In recent years administrative officials and boards in both Federal and state governments have multiplied a hundredfold. In order to perform their functions it has become necessary for these officers and boards to make numerous rules. And many of these rules are legislative in character. Thus these officers and boards seem to have assumed the function of a legislature. Their rules are designed to put into effect the will and purpose of the legislature as set forth in legislation. However, such officials, not being elected, do not feel so high a degree of responsibility to the electorate as do legislators. Before adoption their rules are not considered in party platforms and caucuses. And because the framers do not feel impelled to yield to the pressures that influence the legislature, much of their own social or economic theory is worked into their rules and the administra-

tion of them. Thus legislative decisions are reached without being subjected to the ordeal of discussion, compromise, and conciliation among all the various groups and interests that are vitally concerned. Many of these divergent groups do not have an opportunity to be heard. For these and other reasons the air is rife with charges that our government has ceased to be democratic and has become a bureaucratic tyranny. Is government by bureau democratic?

While it can not be denied that the bureaucratic system involves some of the techniques of fascism, it differs from it in several vital respects. In a democratic state the specifications of the plan which is to be put into operation by a bureau *are drawn and prescribed by a body directly responsible to the people—the legislature*; and the very existence and powers of every bureau are dependent upon the will of that body. Second, *the personnel of a bureau is responsible to the same legislature or to an elected official—the chief executive*. And third, while it is true that members of a bureau are not elected directly by the people and are not subject to removal by them, *such members are subject to the impact of public opinion as manifested through the channels of speech and press*. The people, therefore, may and do exercise control over administrative bureaus, though such control is less direct than it is over a legislature. It is not a case of the people's having irrevocably assigned their functions to an irresponsible agent as they do in a fascist state. It is a case of the

people's having agreed temporarily to keep their hands off until the plans of the experts have had a fair trial. Then if the people are dissatisfied with the result, they have it within their power to put other persons in charge, cause new plans to be tried, or abolish the bureau altogether. This they can do through electing legislators and executives pledged to make the changes. In a totalitarian state neither the policy nor the personnel of a bureau is in any manner subject to review or control by the people.

This is the age of the specialist, not only in the scientific but in the social field. A person building a house employs an architect; a person suffering from an organic disease obtains the services of a surgeon specialist; a person building a manufacturing plant avails himself of the services of an engineer; a person operating a factory employs a staff of executives; a person involved in litigation hires a lawyer; banks employ economists and accountants; insurance companies engage actuaries and statisticians. In all such cases the employer grants his specialist wide discretion and even policy-making authority. He holds him accountable only for results. The employer does not interfere with the detailed processes by which those results are reached. Yet it has occurred to no one to charge that in making such contracts the employer has lost control over his own affairs. It is simply recognized that that is the only form in which the services of an expert are available. The employer feels that he has sufficiently

protected himself by reserving the power of discharge, if after a fair opportunity his specialist does not produce results.

Like a person, the government also needs the services of specialists. Should it not then be permitted to employ them upon the same basis as a person? Many fields in which the government operates involve technical knowledge of a high order. For example, every state in the union has seen fit to set up machinery for the regulation of the insurance business. Regulation in this field requires the drafting and the applying of rules with respect to the calculation of reserves, of premium rates, classification of risks, use of mortality tables, valuation of investment securities, and many other technical subjects. Only a staff of experts in insurance can handle such matters. Necessarily they must have power to work in accordance with their own ideas and plans. But they are held accountable for results, and if these are not forthcoming, they are displaced by others.

The same thing may be said of interstate commerce and trade, security transactions, communication, public utility service, labor, and many other activities that have come within the scope of government. Their regulation requires the services of experts. Hence, there have been established the Interstate Commerce Commission, the Federal Trade Commission, the Communications Commission, the Securities and Exchange Commission, Public Service Commissions, the National Labor Relations Board, and many other bureaus. The same

reasons that require large discretion in experts employed by private persons require that extensive powers be granted to governmental bureaus. But likewise they should be—and are—held accountable for results.

The whole case for bureaucratic government then comes down to the consideration that the character of many governmental activities is such that the services of experts are required and that the forces of compromise must yield to some extent to the requirements of efficiency. This seems necessary, not only because a measure of efficiency is intrinsically desirable, but also because it seems probable that only in this way can democracy meet and beat back the challenge of fascism. Which do we want, a controlled bureaucracy or an uncontrolled dictatorship?

But other objections to our bureaucratic system have been raised. Not only has the bureau assumed legislative powers but also judicial powers, and, in connection with its judicial powers, the function of prosecuting persons who appear before it. One of the most used arguments against government by bureau is that it involves the vesting, in one officer or one board, of executive, legislative, judicial, and prosecuting powers, and hence conflicts with the theory of the separation of powers set up by our Constitution. Our constitutional theory, it is contended, is that these separate functions of government should be performed by different officers, so that each will be free to exercise an independent judgment, and to

act as a check upon the others. But now we are setting up a system in which a bureau will first draft a rule (a legislative function), then order some one to comply with it (an administrative function), then in case of his failure to comply, charge him with a violation and present evidence to itself supporting such violation (a prosecuting function), and finally determine whether there has been a violation (a judicial function). Do we have here a violation of the principle of checks and balances which the constitutional fathers intended to set up? Is this a procedure that conflicts with basic democratic principles?

I do not believe that this concentration of functions necessarily violates the principles of democracy. If democracy fails, it will be because it lacks the power to function effectively. To make it effective we must take some risks, and a bureaucratic unit in our system with proper safeguards seems to be within the scope of reasonable experimentation for obtaining that end. It seems probable that in the course of time a system may be developed for distributing the functions of a bureau among several sections into which it may divide itself so that the different functions will be actually performed by different officers. Some bureaus have already adopted such procedure. This will at any rate make independent judgment more probable in the several sections.

Then, of course, there is always that independent check against arbitrary decision—the judicial review. Such questions as whether a bureau has acted within the power

conferred upon it by the legislature, whether constitutional rights have been violated, whether there has been a “fair trial,” and whether substantial evidence supports its decision, are and must always be reviewable in the courts.

But there is a still stronger answer to the critics who charge that bureaucracy, because it infringes the constitutional doctrine of the separation of powers, constitutes a threat to our liberties. That is found in the history and experience of the judicial system itself. It is found in the fact that the courts from the birth of the nation (and in England for centuries before that) have exercised legislative, executive, and judicial powers, without at the same time threatening or molesting our liberties. Every day courts are making law, and interpreting and enforcing the law which they make. By far the greater part of the law of contracts, torts, property, trusts, quasi-contracts, insurance, negotiable instruments, sales, and mortgages has been made by judges. Some of this law has since been codified by statute, but its source was judicial. If the judges have not made this great body of law, what was its source? It certainly did not originate with the legislature. I think it may be conservatively said that the great majority of the legal rules that regulate the conduct of man in his business dealings, his family affairs, and matters involving his property holdings were originally made by judges who had no statutory authority whatever to make them. Not only have the judges made these rules and through

the interpretative process refined them from time to time, but they have enforced them. Every court has its sheriff or marshal, and, armed with a writ issued by the court, this officer may take a person's property and cause it to be sold in order to make effective the court's judgment. More than that, a judge can arrest and imprison persons guilty of contempt of court, or, in many states, guilty of any one of many common-law crimes. And this can be done and is done without one word of statutory authorization—without any direction as to plan, policy, or purpose—but simply by virtue of the common law, the courts' own creation. Furthermore, in our zeal to make judges less responsible to the public we have, in the Federal system, given them office for life and, in state systems, comparatively long terms. Now the amazing part of the story is that our courts in making, interpreting, and enforcing the common law—in exercising this *carte blanche* authority—have never been seriously charged with constituting a threat to our liberties, but rather held up as being the bulwark protecting our liberties. We have insisted, and rightly I think, upon our judges being *independent*. But when it is proposed that a governmental bureau be created, to put into execution a plan worked out by Congress, in which the bureau's powers are carefully delimited, the proposal is vigorously and heatedly criticised for being dictatorial and anti-democratic because it confers legislative, executive, and judicial powers upon one body.

Suppose we had gone along thus far in the development of government without a judiciary, and it were now proposed for the first time that a great number of courts be created for the purpose of deciding disputes between parties; that the members of these courts be appointed for life, and that, without legislative plan or aid, they should make their own law as they went along. Would that not seem to be a proposal containing a greater threat to liberty than the criticised present-day bureaucratic plan, in which the general policy to be pursued by the bureau is set out by the legislature? And yet that would only be our present judicial system.

Why is it that with their comprehensive tripartite powers the courts have not through the years become tyrannical, oppressive, and ruthless, rather than the protectors of our liberties? There are probably several reasons, but one of them is that there has always been a body with power to override them and change every rule they make, and that body is the legislature, always safely in the hands of the people. Not only has this constant imminence of legislative power existed, but the power has been exercised time and again. This important relationship between the legislature and the courts has been almost overlooked in recent years, apparently because of the occasional display on the part of the United States Supreme Court of its power to strike down an act of Congress because of its unconstitutionality. Though this has been done but rarely in our history, some people have been misled into be-

lieving that this shows that the Supreme Court, and not Congress, is the supreme power. But Congress has overruled the Supreme Court thousands of times. Nearly every time Congress passes a statute it changes the common law in some respect; that is, it changes the law that has been made, refined, or fortified by the courts in their many decisions not involving constitutional questions. And of course there is not the slightest doubt of the power of Congress to do this.

But bureaus are subject to exactly the same overriding power as the courts. Their every rule and order can be repealed by the legislature. And this check is in addition to the restraint against arbitrary power exercised upon them from the opposite direction by the courts themselves. Between the power of the legislature to make or destroy, upon the one side, and the power of the courts to veto, upon the other, it is not likely that bureaucrats will become tyrants. Is there any reason why the bureaus will not exercise the same zeal in protecting what people value most, as the courts have exercised? Can it be seriously contended that dressing a man in a black robe and calling him judge causes all his prejudices and human frailties to dissolve, or causes him to be more zealous in the public interest than one not so clothed or called? The real objection to what is being done is not that it is bureaucracy—is not the principle of giving these comprehensive powers to one group of men—but the bringing of a new field of human activity within the scope

of regulation by law. The courts through the years and through their own initiative have acquired regulatory power over human conduct within certain areas, but they have not acquired it in the new field created by industrialism. It is in this field that Congress and the state legislatures have thought it desirable to set up regulatory bodies and to call these bodies bureaus. Whether legislatures have created too many bureaus and granted them power over too wide an area of human activity is a question of policy beyond the scope of the present inquiry.

There probably are some differences between courts and bureaus in their law-making methods. Courts do not draw up rules in advance of controversy, and announce them to the world, except in the mildly persuasive form of *obiter dictum*. They make their law day by day as they decide cases. Rules only gradually take on form and content. But they finally materialize, and when materialized they constitute precedent and are followed and observed in deciding new cases. Some bureaus, as for example the Federal Trade Commission, follow the same procedure as courts, and others, like the Securities and Exchange Commission, have adopted the practice of drawing their rules in advance of controversy and announcing them to the public, so that the public may conduct itself accordingly. But these differences seem to me to be of minor importance.

The objection to bureaucracy on the score that, in combining three departments in one, it constitutes a

threat to democracy can not stand, unless the American judicial system itself is to be condemned as anti-democratic.

A sounder objection to bureaucracy is that members of a bureau are not always trained in the art of conducting trials, or do not have knowledge of the techniques that the law has developed for protecting fundamental rights of litigants—for holding a “fair trial.” This position is well taken. I am convinced that too much importance can not be attached to the necessity in any hearing of an atmosphere conducive to a fair and impartial trial. This is a democratic technique of prime importance. I believe firmly with ex-Chief Justice Hughes (especially having vividly in mind Russian, German, and Italian “justice”) that there is nothing upon which good government depends more than on the “Just Judge.” But these objections may be met by rigid requirements of character and training in members of bureaus.

The feasibility of establishing bureaus can hardly now be considered a partisan issue. As early as 1916, Elihu Root, a Republican, who had been one of America’s ablest secretaries of state and who was then a senator, speaking before the American Bar Association, said, “There is one special field of law development which has manifestly become inevitable. . . . The Interstate Commerce Commission, the state public service commissions, the Federal Trade Commission, the powers of the Federal Reserve Board, the health departments of the states, and many other super-

visory offices and agencies are familiar illustrations. Before these agencies the old doctrine prohibiting the delegation of legislative power has virtually retired from the field and given up the fight. There will be no withdrawal from these experiments. We shall go on; we shall expand them whether we approve theoretically or not, because such agencies furnish protection to rights and obstacles to wrong-doing which under our new social and industrial conditions can not be practically accomplished by the old and simple procedure of legislatures and courts as in the last generation.”

Though the Democratic administrations have been severely criticised for having set up a great many bureaus, Republican administrations, during the twelve years from 1921 to 1933, not only did not abolish those established during the Wilson regime, but in addition created the Grain Futures Administration, the Packers and Stockyards Administration, the Federal Power Commission, the Federal Radio Commission, the Reconstruction Finance Corporation, the Boulder Dam Authority, the Federal Farm Board, and the Inland Waterways Corporation.

Though no bureaus are expressly provided for in the Constitution, it may be said that the constitutional fathers endorsed the principle of the bureaucratic system. The makers of the Constitution thought that the popular will itself needed certain checks. Hence they did not grant the people direct power to elect a president but gave them power to elect the electoral college which,

acting independently, was to elect a president. And members of the United States Senate were not to be elected by the people but by an intervening body, the state legislature. In other words, though the plan has since been changed, the Constitution gave the people only an indirect or remote control over the Presidency and the Senate. An independent agency was set up *between* the people and the governing officials. This is what the bureaucratic system does. The administrative agency is two degrees removed from the people. The people elect the President and the Congress, and these agencies select the bureaus that actually administer the laws. In a way, then, the bureaucratic system is a return to the principle of the fathers.

The danger in Naziism lies not so much in its centralization of governmental authority, its governing by means of bureaus, or its setting up of a systematic economy, as in its oppression of dissenting or minority groups, suppression of speech, censorship of the press, denial of freedom of religion, interference with free organization, lack of laws protecting people from unjustifiable arrest, deprivation of accused persons of the right to a fair trial, lack of machinery by which those in power are held periodically accountable to the people, and the adoption of a national policy of race prejudice and discrimination.

It has been contended by some that the entrance of government into fields previously occupied by private enterprise is anti-democratic—such, e.g., as the Tennessee Valley Au-

thority. Though in many instances this may not be the wisest policy to follow, such a policy is not anti-democratic or contrary to the spirit of the Constitution. As Mr. Justice Holmes has said, "A constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relation of the citizen to the state or of *laissez faire*." The government of Sweden is engaged in numerous activities which in this country are privately controlled. Yet, tested by any reasonable standard of democracy, Sweden is a thoroughly democratic country. The same was true of Norway before her subjugation by Germany. And even if the following of such a policy is looked upon as a movement toward socialism, it does not follow that it is a movement away from democracy. By our principle of experimentation in government it may be discovered that some activities can be best handled by government while others may be best handled by private enterprise. We are well enough satisfied with our postal and educational systems to continue them under governmental control. In the course of time we may find that other functions should be similarly handled. So long as private management of any particular activity continues to satisfy the people, they will retain it. When it ceases to satisfy them, they will change to some other plan. If they find they have made a mistake in leaving private control, they will return to it. It is a merit of democracy that it is elastic. It is not committed to any social or economic

system. It is free to choose its own course.

It is not to be concluded from what has been said that bureaucracy does not introduce evils of a serious character. Since our entry into the war, bureaus, authorities, committees, and commissions have been increased a hundredfold. Confusion and uncertainty have been introduced by conflicting and overlapping jurisdictions. Many authorities seem to be competitors of each other for power, and frequently the citizen is confused and uncertain as to his rights and duties. Furthermore, it is exceedingly difficult for Congress or its committees to keep in touch with what these administrative units are doing. At times Congress itself seems unaware of the extent of its own creations. All this should

warn us that there can be too many bureaus for efficient government, and that the whole system may be so clumsily set up that there is danger of a complete breakdown.

But we should not pass final judgment upon the bureau as an element of government, nor condemn all bureaus, because of what we have been forced to set up too hastily during a period of war. When the war is over, bureaus will have to be abolished right and left, and what remains will have to be reorganized and streamlined. But this can and will be done. What I am concerned to point out is that the bureau as an agency of government is bound to be with us, and that, properly set up and organized, it is consistent with the principles of democratic government.

For more than a year, various groups including Congressional committees and Government officials have been trying to formulate a tax program that would meet the heavy requirements of the postwar period. But as yet no satisfactory program has been worked out that would provide incentives for expansion and new ventures and keep tax rates on a modest scale for the lower-income class, without at the same time shifting a crushing burden to the middle class. It is this class that is the backbone of the country and serves as a balance wheel in a democracy. Should this group be liquidated through taxation, which is the first step taken in a totalitarian country, then private enterprise and our democratic form of Government would be automatically scrapped.—From *New England Letter* (First National Bank of Boston), September 29, 1944

The total value of exports from this country for the first eight months of 1944 was \$9,606,000,000, a record figure. Lend-Lease shipments are included in this total but not supplies sent to American forces abroad. General imports of merchandise for the same period were about 22 per cent above the total for the first eight months of 1943.

A New Technique for the 1944 Tax Return*

EDWARD J. FILBEY

Department of Business Organization and Operation
University of Illinois

Two new Federal income tax laws were enacted in 1944: the "Revenue Act of 1943," and the "Individual Income Tax Act of 1944." The former was vetoed by the President, but was passed over his veto and became a law on February 25, 1944. The second act was approved on May 29, 1944. As was true of the eight income tax laws enacted in the period from 1939 to 1943, each of the two laws enacted in 1944 consists primarily of amendments to the last complete law, the "Revenue Act of 1938."

Of the many changes made by the Revenue Act of 1943, several were canceled or modified by the Act of 1944. In this article only the net changes made by one or the other of the two laws will be summarized.

In its report to the House of Representatives, the Committee on Ways and Means stated that in preparing the 1944 bill the Committee had in mind the following objectives:

"1. To relieve the great majority of taxpayers from the necessity of computing their income tax.

"2. To reduce the number of tax computations.

*This is the fourth annual article dealing with certain details and changes in the Federal Internal Revenue Code. The editors plan to publish such an article each year as an aid in the preparation of income tax returns.

"3. To simplify the return form.

"4. To decrease the number of persons required to file declarations of estimated tax.

"5. To eliminate some of the difficulties and uncertainties in the making of estimates required for declarations."

A careful study of the 1944 Act will reveal that all the above-named objectives, except possibly the first, are likely to be realized.

Form 1040 for 1944 is very well designed, and the instructions accompanying it are the most comprehensible thus far issued by the Bureau.

Requirement for Filing a Return

The new requirement is stated very simply: "Every individual having for the taxable year a gross income of \$500 or more shall make a return." However, an individual entitled to pay the tax as computed by the so-called "optional method," whose gross income is less than \$5,000 and is derived entirely from wages, dividends, and interest, and whose gross income from sources other than wages subject to withholding does not exceed \$100, may elect to be relieved of filing a return and of computing his tax. In that case he will use the withholding receipt given him by his employer. Upon receiving this receipt, together

with certain required information, the Collector of Internal Revenue will compute the tax. The taxpayer will thereupon be billed for any additional tax due, or will be notified that a refund is due him of taxes collected in excess of the amount properly payable.

A husband and wife may, as before, make a single return jointly. This is true even though one of the spouses has no gross income and no deductions. A joint return cannot be made if either spouse is a non-resident alien, or if husband and wife have different taxable years.

New Provisions Relating to the Normal Tax and the Surtax

The Victory Tax has theoretically been abolished, but practically it reappears in the form of a new normal tax. The old normal tax has been combined with the old surtax, giving a new surtax with rates substantially equal to the sum of the respective rates formerly imposed. The new normal tax rate is 3 per cent. Surtax rates range from 20 per cent to 91 per cent, the rates increasing as the income increases. All surtax net income up to \$2,000 is taxed at 20 per cent. The 91 per cent rate is reached when the surtax net income of an individual is in excess of \$200,000.

The credits allowable against net income before the computation of the normal tax and the surtax have been greatly modified. The terms "personal exemption" and "head of a family" have disappeared. An unmarried individual is entitled to a normal tax "exemption" of \$500. If a joint return is filed, this ex-

emption is \$1,000, unless the adjusted gross income of one spouse is less than \$500. In that case, the normal tax exemption will be \$500 plus the adjusted gross income of the spouse having the smaller income.

The term "adjusted gross income" is new in the 1944 law. In general it means total gross income minus business deductions only.

For the purpose of the normal tax no credit is now allowed for dependents or for earned income. The concept "earned income" is no longer accorded recognition in the tax law.

A taxpayer is allowed, for the purpose of the surtax only, a surtax exemption (or "credit") of \$500 for himself, \$500 for his spouse, and \$500 for each dependent whose gross income is less than \$500 for the year. However, if the spouse files a separate tax return, or if she is the dependent of another taxpayer, (her father, for example,) the husband cannot claim an exemption for her. It may be observed that a married individual will find it advisable under the present law to include his spouse's income, if this is less than \$500, with his own in a joint return, thereby obtaining a full surtax exemption of \$1,000, (\$500 for himself, and \$500 for his spouse). If, however, the spouse's income is over \$500, separate returns will be advisable if their combined surtax net income is more than \$2,000.

Determination of Status

The determination of whether an individual is to be classed and taxed as a single person or a married per-

son is to be made as of the last day of his taxable year. But if his spouse dies during the taxable year, "such determination shall be made as of the date of the spouse's death." The last clause apparently means (1) that the surviving spouse will in every case be classed as a married person (unless the couple had been "separated" prior to the death of the spouse); and (2) that he will be entitled to a combined surtax exemption of \$1,000 if the deceased spouse had no gross income and was not the dependent of another taxpayer. The survivor's tax return will be a "separate return," as no joint return is permitted in the case of a living person and a decedent.

Other Provisions Relating to Dependents

Under the 1944 law the term "dependent" applies only to a person within certain degrees of relationship to the taxpayer, over half of whose support for the calendar year in which the taxable year of the taxpayer begins was received from the taxpayer. The relatives specifically mentioned in the law are the taxpayer's sons, daughters and their descendants; his stepsons, and stepdaughters; his brothers and sisters and their children; his stepbrothers, stepsisters, half brothers and half sisters; his father and mother, and their brothers, sisters and ancestors; his stepfather and his stepmother; and his sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law, father-in-law and mother-in-law. A legally adopted child is considered the same as a child by blood. But

cousins and other remote relatives do not satisfy the requirement. A taxpayer cannot claim as a dependent a person who is a citizen or subject of a foreign country unless such individual is a resident of the United States or of a country contiguous to the United States.

It will be noted that the age, the physical condition, and the mental condition of a dependent are no longer taken into consideration. A parent, therefore, who continues to support a son or a daughter who is attending school or college can now usually claim a credit of \$500 for each such person as a dependent. If a dependent was in existence during only a part of the taxable year, the taxpayer is nevertheless entitled to the full \$500 credit.

Earnings of a Minor

The earnings of a minor are now no longer to be considered part of the income of a parent. If a minor has a gross income of \$500 or more, he must file a tax return. In that case he cannot be claimed by the parent as a dependent. But if the minor has a gross income of less than \$500 and if his parent contributes more than one-half of his support, the minor constitutes a dependent of the parent. Under these circumstances the income of the minor escapes taxation.

Basis for Calculating Deductible Contributions and Medical Expenses

Heretofore contributions were allowed as deductions in an amount not in excess of 15 per cent of a

taxpayer's net income. The limit is now 15 per cent of the taxpayer's "adjusted gross income." This will ordinarily result in a somewhat larger deduction in the case of taxpayers who make generous contributions to religious, educational, charitable, and similar organizations.

Adjusted gross income is likewise the basis for determining the amount of medical, dental, and hospital expenses deductible. Expenses of this kind in excess of 5 per cent of the adjusted gross income of the taxpayer are allowable as deductions. But the maximum amount deductible is \$1,250 in the case of a single individual, and \$2,500 in the case of a married person or of a single person supporting one or more dependents. Such expenses include also amounts paid for health and accident insurance. Amounts received as compensation for sickness or injuries are accordingly treated as taxable income, but not in excess of the deductions allowed for medical care. It will be observed that 5 per cent of adjusted gross income will usually be greater than 5 per cent of net income, and that the change will therefore result in a smaller deduction than formerly except in the case of those taxpayers who are unfortunately able to claim the full maximum amount allowable.

The Optional Tax Computation

As a result of the two tax laws enacted in 1944, the optional tax provisions now apply to adjusted gross incomes up to \$5,000. This alternative method of computing one's income tax is now available to practically all taxpayers, regardless of

the source of their income, provided that their adjusted gross income is not in excess of \$5,000.

In view of the fact that the tax table provides for a standard allowance, for personal expenses, of approximately 10 per cent of a taxpayer's adjusted gross income, it is quite certain that a large proportion of taxpayers will avail themselves of the optional table. If, however, a taxpayer finds that his deductible personal expenses—taxes on his home, interest on private borrowings, contributions, medical expenses, etc.—are in excess of 10 per cent of his adjusted gross income, he is likely to find that the use of the standard method will result in a lower tax.

The Optional Standard Deduction

Persons with adjusted gross incomes of \$5,000 or over are now given the privilege of using a standard deduction of \$500 in lieu of the total of their actual deductible personal expenses. In most cases it will prove worth while for the taxpayer to compute his tax, at least tentatively, by both methods. After a taxpayer has elected to use one method and has filed his return, his choice is irrevocable for that taxable year.

Miscellaneous Changes

(a) The fourth installment of the estimated tax for 1944 will be due on January 15, 1945, instead of on December 15, 1944.

(b) A person now qualifies as a farmer if two-thirds of his gross income for the taxable year, instead of 80 per cent, is derived from farming.

(c) A farmer need not file a declaration of estimated tax until January 15. If he is able to file his complete tax return by that date, he will not have to file a declaration. If a declaration is filed January 15, the complete return will be due, as previously, on or before March 15.

(d) Several very important changes have been made in the provisions of the law relating to the withholding of the income tax by employers. These will not become effective until 1945, but every employee will be required to furnish his employer with a new exemption certificate on or before December 1, 1944. It is expected that in the case of a taxpayer whose income is derived solely from wages, substantially his entire tax liability on wages up to at least \$5,000 will be withheld by the employer during 1945.

(e) Excise taxes are no longer deductible unless they are paid in connection with a business expense.

Completing the Payment of Taxes for 1944 and Earlier Years, and Filing a Declaration for 1945

(1) On or before January 15, 1945, an individual taxpayer will remit to the Collector either the last quarter of his declared tax for

1944, or the balance of his *actual* tax for 1944 that has not been withheld by his employer and has not already been remitted as installments of his declared tax.

(2) On or before March 15, 1945, the taxpayer will file his regular (final) tax return for 1944 and remit the balance of his actual tax, unless this was done on or before January 15, 1945.

(3) If the last one-eighth of a taxpayer's 1942 or his 1943 income tax remains unpaid, this must be paid on or before March 15, 1945.

(4) Every individual, with very few exceptions, must file a declaration on or before March 15, 1945, of his estimated tax for the taxable year 1945, (1) if his gross income from wages can reasonably be expected to exceed the sum of \$5,000 plus \$500 for each surtax exemption except his own; or (2) if his gross income from sources other than wages can reasonably be expected to exceed \$100 and his total gross income is expected to be \$500 or more. One-fourth of the estimated tax must be paid when the declaration is filed. But a person deriving two-thirds of his gross income from farming need not file his declaration of expected income for the year 1945 until January 15, 1946.

The Consumers' Balance.—According to the Office of War Information, in 1943 Americans, in spite of wartime conditions, spent more for goods and services than in any other year in the nation's history. Yet, because of swollen wartime incomes the amount of unspent income was greater than ever before.

OWI reported that \$33.4 billions were left after \$90.6 billions worth of consumer goods had been purchased and \$18 billions in taxes had been paid.

We Turn to the Right

FRANCIS G. WILSON

AT the close of the Democratic Convention this year Mr. Fulton Lewis, Jr., the noted radio commentator, observed that the nomination of Senator Harry S. Truman for the vice-presidency meant that the party had turned to the Right. To have nominated Henry A. Wallace again would have indicated that the Democratic party still showed a slight inclination to the Left. But the ordinary citizen might ask with some pertinence: Just what is a turn to the Right? What would be a turn toward the Left? Such terms seem to have very little meaning, for even the American Civil Liberties Union noted in its report for 1944 that the Communists now approve practically all the views held by the American majority. On the other hand, the Socialist party stands on the Left, since it continues to hold ideas which, in the American tradition of politics, are revolutionary in their import.

Most of us are conservatives, and most of us have had nothing to do this election year with the Socialist party or the Communist Trojan horse. We have stayed within the traditional party framework, that is, we have voted for either the Democratic or the Republican candidates. But, on the assurance of Mr. Fulton Lewis, Jr., we are voting conservative when we make such a choice. Thus we may say, probably, that the shift to the Right in the Democratic

fold is in its quality a small shift, just as the Republican party, the founder of the American tradition of Progressivism in politics, can with slight changes in policy become progressive in the usual sense of the word. We adhere in practice to what might be called the American tradition of political decision, and most of us believed that there was a real difference between the choice of Democrats or Republicans in the election. On the other hand, the revolutionary will say that both major parties are bankrupt in that they have no new ideas for the solution of economic and social difficulties. This position assumes that the revolutionary of today does have answers to the economic issues we face. The conservative may justly be dubious of such assertions, especially in the light of the history of Socialism during the last generation.

Students of governments have remarked for a long time the swing of the so-called pendulum of politics. This is to say that the voters will shift in degree from the extremists to the moderates over a period of years. After a period of reformism, the electorate will want peace and quiet in its political leadership. We have had, certainly, a lot of noise from the party leaders and bureaucrats during the last dozen years, and the nomination of Senator Truman, who called himself a wheel horse, may indicate that the Democratic leadership is simply hanging

on to the pendulum as it swings to the Right, hoping thereby to remain in power. What is argued here, however, is that the swing of the pendulum is within the limits of traditional American party action; even on the progressive swing of the pendulum we may still say that most voters do not desire any revolutionary change and that they want such a preservation of American practice and tradition as to remain conservative in spirit.

A second world war, added to the continuous dislocation of economic life, has given nearly all classes in all countries a sense of insecurity, a questioning of tomorrow, and a desire to retain the advantages previously held. When political leadership, therefore, argues that it stands for security, for the abolition of fear and want, it is appealing to the deepest political emotions of the people of this destructive age. Adventure there is too much of, calm thought has all but ceased to exist, and expectations are destroyed each day as a matter of course. Security means, in effect, restoration of what we once had, and freedom from fear means no further loss of what we have had and what we want. It is clearly good politics to stress these appeals, but those who stress them should in conscience believe that they are capable of making good on the promises they offer.

The turn to the Right may signify that all groups in the community have learned again that most political promises mean little. It may mean that they want fewer such assurances and more actual per-

formance from political leadership. It may signify a further and growing distaste for the magniloquence of political leaders. It may mean that people are beginning to believe that the state is, indeed, a fragile reed on which to lean in time of trouble. Conservatism in politics may mean a cynical distrust of all political action; but it should mean more than this, and it does, to the intelligent adherent of the traditional system of life in the United States.

The importance of these considerations may be easily illustrated. Mr. Peter F. Drucker in *The End of Economic Man* has insisted, and I think accurately, on the despair of people who have surrendered their liberties to dictators. The loss of hope has produced a will to believe in leaders and not in principles, and it has fostered the insanities of politics which form the core of the revolution of our time. In the urban middle class and in the factory workers distrust and hate have been generated for years. The immediate frustrations of war and insecurity have been added to the subconscious revolt against the conditions of life in factory and industrial town. Yet the alternatives to which we have turned are poor enough. A part of the working class yet has the will to believe that Russia is the hope of democracy; others turn in gratitude toward the growing bureaucracy and the expanding power of the state; and still others surrender themselves to the oligarchies of trade-union leadership.

For the European, the basic contrast is between the individual who believes in some form of the mod-

ern revolution and those who think that sanity and security may be reached again in the framework of tradition. But the revolutionary promise is now pale enough and the traditions which once held society together can only be more shattered than they were by the impact of the present war. The turn to the Right will mean that, gradually, the revolutionary promise, dating back to the movement launched by Robert Owen, the Chartists, and Karl Marx, has ceased to appeal to the imaginations of the intelligent. But for the masses it must mean the acceptance of a leadership which frankly argues that salvation lies in a return to the traditional values of Western economic culture. For ourselves, if the promise of American tradition is to be realized only in part, a heavy burden rests on those who are conservative in spirit. Against the compelling failure of Socialism for a generation, a measure of success for the conservative may be enough to begin again a lasting and orderly progress.

The central issue in all this is simply to make the modern economy function without the continuous stream of halfway measures and erratic plans which some think have been keeping it going since the outbreak of war in 1914. The brave talk of wartime optimism must be made good if the present war is not to become merely a prelude to greater disturbances in the future. Historical practice, it must be recognized, is imperfect, for the nature of men is, as the theologians say, sinful, or, as the modern philosopher might say, recalcitrant. Policies at

times represent an ideal which in actuality is often remote from the rational goal we set before us. But our success in the future must rest upon the conservative proposition that only a partial success is possible; that those who suffer under the present order of the world must be satisfied with the alleviation that can be given by society as a whole and not merely by bureaucratic management. We must work with the economy we have; it is the traditional foundation on which we can build. As the apocalyptic dream of revolution fades, the system of conservative policies will be tried again, though probably not in all its logical completeness. The turn to the Right means that the central issue of making the economy work is given, for another trial, to the conservative spirit in leadership. It means too that individuals and localities bear a larger responsibility for social well-being than they have acknowledged for many years.

Whether we speak of socialists or traditionalists, the number of ideas presented for the solution of economic trouble since August, 1914, is curiously small. The predominant idea has been that government spending will keep the economic system functioning. Public works, subsidies, and monetary schemes have resolved themselves for the most part into government borrowing and spending. Essentially, we are just where we were before, and the plans for our postwar period of tomorrow look suspiciously like those of 1920, except that today there is a body of theory to support the budgetary activities of the government. A pro-

gram of road-building in the United States can hardly be presented after the war, for example, as a new idea. But that, in all probability, is one of the things we face, as Congress is already considering proposed bills to take over the postwar highway program. In contrast with an earlier day, there is now a group of theorists who justify the unbalanced budget and agile fiscal footwork. The conservative argues that one of the bedrock elements in any functioning economy is a spending and taxing policy which imposes as little burden as possible on the productive forces of the country, and which gives people some assurance that the dollar of tomorrow will buy as much as the dollar of today.

The issue may be stated something like this. The bureaucratic revolutionary of the present time argues that only by government assistance can investment be sufficiently encouraged to keep economic activity expanding. It is only with the aid of government that the economy can keep going at all. Fiscal policy thus becomes one of the first elements in the economic system; with an adequate flow of spending, production will take care of itself, since people will have enough money to buy whatever is produced. On the contrary, the conservative puts production as the first element in the table of economic health. Fiscal policy, such as taxation, can impair production or can aid it, but fiscal policy is no substitute for the distributed initiative of the system of private enterprise. It is impossible to aid production by merely spending, if at the same time part of the fiscal

system penalizes the initiative of business in developing production.

Much of the conservative position depends upon an interpretation of history. No thinker today would minimize the crisis through which the world has moved since 1914. It is a period in which there has been a disintegration of economic order, political tradition, cultural restraint, and religious values. The intellectual revolutionary assumes, with his materialistic interpretation of history, that the capitalist system is responsible for what has happened, and he makes the further assumption that a system either clearly or partially socialistic will restore all that has been broken down in the last thirty years. The blueprints of a political dream-world are set off against the actualities of economics and politics. The conservative answer is that the revolutionaries share in the responsibility for debacle, just as much as any other group. For it is clear that Socialism has had in the last generation all the opportunities any political movement could ask. Had its promises been true, it might have prevented the first German war; it might have solved the economic difficulties of the reconstruction time; and it might above all have prevented the rise of Fascism and the outbreak of another war in a generation. The conservative should admit his own failures to do these things, but if the revolutionary idea of the twentieth century is what it is supposed to be, it should have succeeded where conservatism failed.

The conservative picture of Socialist achievement, or lack of achievement, includes most of the

countries of Europe. In Russia Socialism had its great chance. But the political nature of the regime in that state, as well as the recent return to traditionalist positions in politics, vitiates any assumption that Russia is a worker's paradise. Communism may be regarded as one of the most cynically reactionary movements in the world today. What it will be in the postwar period depends, of course, upon the will of the masters of the Kremlin. Or, the conservative may observe the failure of Socialism in democratic countries to live up to its promise of political initiative. The tendency of Socialist leadership in or near power to become inert was shown in Germany before the rise of Hitler, in the politics of the Socialists in both France and England, not to mention Italy in the years immediately after the last war. It may be argued, indeed, that the only exceptions, the Scandinavian countries, present us with a good deal of honest conservatism mixed with a dash of socialism. Likewise, the smaller agrarian countries which have remained out of the war will, no doubt, be in the best position economically when we begin again the laborious process of reconstruction.

Clearly, the history of the West since 1914 shows the state to be an oppressive institution. The Right today may well regard as proved the proposition that the state, in spite of revolutionary window dressing called socialism, bolshevism, or fascism, is much the same institution that presided over the decline of historic societies. Freedom for the conservative has meant for centuries

freedom from the control of the state. But the state is not simply an abstraction; it is in practice a group of men who have power and who like to keep what they have. The impact of the state upon the individual is largely bureaucratic, since the bureau officials are the enforcers of the law as it is enacted either by executive order or by the legislative body. While the state is necessary, the conservative view of freedom has insisted on the normative idea of constitutional government, that is, a government in which the public official is subject to legal control. Historically, too, the centralized state has tended to escape from the control of law and to become increasingly a rule by personal discretion without adequate means of enforcing the principles of law against those who are in the governing class.

Freedom in the modern world, as in all other worlds, must mean freedom from power. This freedom means freedom from a horde of irresponsible bureaucrats, from political managers and artists in the manipulation of the ideas of the traditionless masses of industrial areas. It means freedom, likewise, from irresponsible private power, such as is involved in monopoly, for certainly the conservative tradition in the United States has never been a defense of those who abuse their power in economic life. Both the political leader and the economic leader should exist because of the service they perform for the great masses of society. The preservation of freedom means to many conservatives the preservation of a

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decentralized society in which there is a wide distribution of political, social, and economic initiative. We have watched the centralized-power state for a generation, and to the conservative its creativeness is now a stale myth that those in power must still exploit through leaders of fustling energy.

There can be no rapid recovery from the destructive and retrogressive period through which we are living. If in a generation after the war, the tendencies toward the destruction of economic freedom have been halted we may say that our work has been well done. If in that period international institutions for the prevention of war are really functioning, we may say that civilization is on the mend and that one of the essential conditions for freedom and limited power has been attained. If in that period that greedy eater known as Leviathan has a more limited appetite for taxes and debts, a foundation for economic growth will be laid. If in such a period of time bureaucracy has

been reduced, restrained, and decentralized, the ordinary individual may be reassured that in democracy the people have some control over their government.

But all this will mean likewise that the middle class in society has been preserved; it will mean that some sort of social balance has been created from the ashes of this revolutionary age. For, in the final analysis, the middle class is the carrier of the national tradition. It is the conservator of the religious values which tie us with all times in the past; it is the social region in which ordinary people have an opportunity to lead secure and reasonably unfrustrated lives; and it is the social group which utilizes the distributed economic initiative so essential in a free economy. It is a place where the fallen plutocrat may land, and it is a region to which the able members of the less fortunate groups in society may rise. Without a vital middle class there is no lasting conservatism, which is to say there is no genuine practice of freedom.

Perhaps the most favorable element in the outlook is that regardless of handicaps and difficulties business men themselves will be working hard to overcome them. Those who suspended work two or three years ago on their normal peacetime products and turned to war production can be certain that a huge demand has accumulated, waiting to be filled. As their war contracts are cut back, every instinct will drive them to get into civilian work again at the earliest possible moment, and to do everything in their power to surmount the obstacles or go ahead despite them. There is much evidence that this determination will apply not only to production of goods for sale, but to making up deferred maintenance rapidly and to new investment in plant and equipment, where that is necessary to revamp and modernize productive machinery, and to relieve bottlenecks. If this is the general attitude the interruption should not be unduly long or depressing.—From the October Letter of the National City Bank of New York